

2003 Safety-Net Cost Recovery Adjustment Clause

Rebuttal Testimony

SN-03-E-BPA-15 REVENUE AND PURCHASED POWER EXPENSE
FORECAST

May 2003

INDEX

REBUTTAL TESTIMONY OF

SPENCER G. WEDLUND, JON A. HIRSCH, JANET ROSS KLIPPSTEIN,

ARNOLD L. WAGNER, AND ROBERT J. PROCTER

Witnesses for Bonneville Power Administration

SUBJECT: Revenue and Purchased Power Expense Forecast

	Page
Section 1. Introduction and Purpose of Testimony.....	1
Section 2. Augmentation Costs.....	2
Section 3. Adequacy of Current Revenue Forecast	7

1 TESTIMONY OF
2 SPENCER G. WEDLUND, JON A. HIRSCH, JANET ROSS KLIPPSTEIN,
3 ARNOLD L. WAGNER, AND ROBERT J. PROCTER

4 Witnesses for Bonneville Power Administration
5

6 **SUBJECT: Revenue and Purchased Power Expense Forecast**

7 **Section 1. Introduction and Purpose of Testimony**

8 *Q. Please state your names and qualifications.*

9 A. My name is Spencer G. Wedlund. My qualifications are contained in SN-03-Q-BPA-28.

10 A. My name is Jon A. Hirsch. My qualifications are contained in SN-03-Q-BPA-05.

11 A. My name is Janet Ross Klippstein. My qualifications are contained in SN-03-Q-BPA-09.

12 A. My name is Arnold L. Wagner. My qualifications are contained in SN-03-Q-BPA-27.

13 A. My name is Robert J. Procter. My qualifications are contained in SN-03-Q-BPA-31.

14 *Q. What is the purpose of your rebuttal testimony?*

15 A. The purpose of our testimony is to respond to the direct testimony of the Columbia River
16 Inter-Tribal Fish Commission and Yakama Nation (CRITFC), the Springfield Utility
17 Board (SUB), the Joint Customers, and the Coalition Customers regarding Bonneville
18 Power Administration's (BPA) revenue forecast estimates of augmentation power
19 expenses contained in Chapter 6 of the Safety-Net Cost Recovery Adjustment Clause
20 (SN CRAC) Study (SN-03 Study), SN-03-E-BPA-01, and in Chapter 6 of the
21 Documentation for SN-03 Study, SN-03-E-BPA-02, and statements regarding the Load-
22 Based (LB) CRAC in the direct testimony of SUB, the Joint Customers, and the Coalition
23 Customers.

24 *Q. How is your testimony organized?*

25 A. This testimony has three sections, including this introductory section. The second section
26 responds to CRITFC's argument that BPA's revenue forecast may not fully account for

SN-03-E-BPA-15

Page 1

Witnesses: Spencer G. Wedlund, Jon A. Hirsch, Janet Ross Klippstein, Arnold L. Wagner,
Robert J. Procter

1 BPA's augmentation costs; to SUB's arguments regarding the alleged under-recovery of
2 augmentation costs from the LB, FB, and SN CRACs; to the Joint Customers' proposal to
3 assume settlement of litigation between public agencies and regional IOUs and to
4 eliminate the "litigation premium" payment to the IOUs incorporated in the projected
5 augmentation expenses; and to the Coalition Customers' claim that the SN CRAC was
6 not meant to recover excess augmentation expenses. The third, and final, section
7 responds to CRITFC's claim that BPA's current revenue forecast does not satisfy
8 U.S. Department of Energy Order RA 6120.2.

9 **Section 2. Augmentation Costs**

10 *Q. CRITFC argues it is not clear that BPA has fully accounted for augmentation costs*
11 *because a BPA handout suggests that between 25 percent and 40 percent of*
12 *augmentation power purchases, with an average amount of \$171 million per year, are*
13 *excluded from augmentation. See Sheets, et al., SN-03-E-CR/YA-01, at 46. Do you*
14 *agree?*

15 *A. No. The fact that the LB CRAC does not recover some augmentation costs does not*
16 *change BPA's testimony or studies regarding the total amount of augmentation costs*
17 *faced by BPA. As stated in Wedlund, et al., SN-03-E-BPA-09, at 14, the total average*
18 *annual cost of all augmentation purchases (excluding renewable resources) is*
19 *\$754 million. Tables 5-1 and 5-2 clarify that total augmentation expenses over that*
20 *period (FY 2004-2006) amount to \$2,262 million. These are total augmentation costs,*
21 *and the method of recovering these costs, whether through the LB CRAC or through*
22 *other tools, is a separate issue.*

23 Furthermore, the table to which CRITFC refers was used at an SN CRAC
24 workshop and was not a part of BPA's testimony. The table, however, indicates that,
25 using fiscal year averages, between 25 and 40 percent of augmentation costs are excluded
26 from recovery using the LB CRAC mechanism. The table also shows the annual total

SN-03-E-BPA-15

Page 2

Witnesses: Spencer G. Wedlund, Jon A. Hirsch, Janet Ross Klippstein, Arnold L. Wagner,
Robert J. Procter

1 augmentation costs that explicitly include the aforementioned amounts. In other words,
2 the amount of augmentation costs that are excluded from recovery under the LB CRAC
3 mechanism are included in augmentation costs in that very same table.

4 *Q. CRITFC presumes that BPA would sell surplus augmentation power in the market, but*
5 *the net cost and BPA's treatment of augmentation is not clear, which, they argue, creates*
6 *an uncertainty that affects BPA's ability to meet its costs and appears to understate the*
7 *total cost of meeting BPA's commitment to sell more power than it had. CRITFC cites*
8 *BPA data responses CR-YA-BPA:040, 083, 084, 085 and 086. See Sheets, et al.,*
9 *SN-03-E-CR/YA-01, at 46. Do you agree?*

10 *A. No. First, BPA has responded to a data request on this very issue. BPA has not*
11 *understated the total cost of meeting BPA's commitment to sell more power than it had.*
12 *In CR&YA-BPA-084, BPA was asked: "Where does BPA account for the net costs of*
13 *power that was purchased in excess of the augmentation needs?" In responding to data*
14 *request CR&YA-BPA-084, BPA stated: "BPA accounts for the net costs of power that*
15 *was purchased in excess of augmentation needs when it determines the LB CRAC*
16 *percentage. The power costs that are excess to the augmentation needs are not included*
17 *in the determination of the LB CRAC percentage. The net costs of power purchased in*
18 *excess of the augmentation needs are first recovered from surplus energy sales. If the*
19 *revenue recovered from surplus power sales does not fully recover the costs of that*
20 *power, then the FB CRAC is used to recover those remaining costs along with other*
21 *costs. If the maximum FB CRAC is applied and still there are remaining expenses that*
22 *are not fully recovered, an SN CRAC may be imposed to recover those expenses." BPA,*
23 *therefore, stated that it has accounted for all of BPA's augmentation expenses.*

24 Furthermore, the actual augmentation net cost will not be known until after any
25 excess augmentation megawatts and resale prices are known; a number not known until
26 the LB CRAC true up is performed -- about 90 days after the close of a given 6-month

SN-03-E-BPA-15

Page 3

Witnesses: Spencer G. Wedlund, Jon A. Hirsch, Janet Ross Klippstein, Arnold L. Wagner,
Robert J. Procter

1 period. BPA forecasts the amount of excess augmentation megawatts that will be resold
2 and the resale price. Such resale is simply a component of secondary sales in BPA's
3 income statement. Finally, the total cost of augmentation, irrespective of the recovery
4 mechanism, is separately included in BPA's income statement.

5 *Q. Can you estimate the amount of the augmentation costs excluded from recovery using the*
6 *LB CRAC that remain after remarketing?*

7 A. Yes. On a forecasted basis these costs total about \$174.5 million over the period
8 FY 2004-2006. Consistent with BPA's Initial Proposal, BPA estimated that the
9 following amounts of augmentation power would be excluded from cost recovery using
10 the LB CRAC: FY 2004 – 355 aMW, FY 2005 – 572 aMW, and FY 2006 – 476 aMW.
11 Assuming an average spot market price of approximately \$26/MWh for FY 2004,
12 \$25/MWh for FY 2005, and \$25/MWh for FY 2006, the following amounts are estimated
13 (rounded to millions):

<u>FY</u>	<u>Resale Revenue</u>	<u>Cost Excluded</u>	<u>Remaining Cost</u>
2004	\$82	\$118	\$36
2005	\$126	\$196	\$70
2006	\$103	\$172	\$69

18 *Q. SUB contends that the Supplemental WP-02 proposal modified the cost recovery*
19 *structure created by increased augmentation load such that the LB CRAC had been*
20 *redesigned to fully address the problem of augmentation exceeding the May Proposal*
21 *forecast. Nelson, SN-03-E-SP-01 at 11. Do you agree?*

22 A. No. The LB CRAC was never designed to "...fully address the problem of augmentation
23 exceeding the May Proposal forecast." See Nelson, SN-03-E-SP-01, at 11. Rather, the
24 LB CRAC was designed to fully recover that portion of augmentation costs needed to
25 meet loads. The LB CRAC design allows all augmentation costs to be recovered using
26 the LB CRAC so long as BPA's augmentation need exceeds the amount of augmentation

SN-03-E-BPA-15

Page 4

Witnesses: Spencer G. Wedlund, Jon A. Hirsch, Janet Ross Klippstein, Arnold L. Wagner,
Robert J. Procter

1 power placed under contract before a given month. When the amount of augmentation
2 power under contract prior to a given delivery month exceeds the amount of
3 augmentation need for that month, then some of the costs of that augmentation are not
4 recoverable from the LB CRAC.

5 *Q. SUB contends that excess augmentation costs intended to be recovered in the WP-02 rate*
6 *case through the LB CRAC are now expected to be recovered through the FB and SN*
7 *CRACs. See Nelson, SN-03-E-SP-01, at 12. Please respond.*

8 *A.* As discussed above, it is not the case that all augmentation costs are to be recovered
9 through the LB CRAC. The possibility of including some augmentation costs in the FB
10 and SN CRACs is not new information and should not come as a surprise. *See 2002*
11 *Wholesale Power GRSPs, section II.F.2 at 111 (“ . . . actual and forecasted revenues and*
12 *expenses that are associated with the production, acquisition, marketing, and*
13 *conservation of electric power, will be included in determinations under the FB*
14 *CRAC.”).*

15 *Q. SUB states that customers such as SUB, which purchase Subscription products from*
16 *BPA, and which are subject to all three CRACs, are bearing additional costs and risks*
17 *associated with augmentation costs. See Nelson, SN-03-E-SP-01, at 12-13. Do you*
18 *agree?*

19 *A.* No. Customers that purchase power products from BPA that are subject to all three
20 CRACs are exposed to the same type of risks as a customer that purchases Slice from
21 BPA and meets its other power needs with some combination of its own resources and/or
22 market purchases. This is one of the principles reflected in the design of the LB CRAC.
23 Further, contrary to SUB’s argument, it is not the case that customers that purchase
24 products subject to FB and SN CRAC are bearing any new cost or risk through BPA’s
25 rates due to over-augmentation than was envisioned when the LB CRAC methodology
26 was negotiated. Parties representing BPA’s customers negotiating the LB CRAC

1 methodology proposed that the LB CRAC should only allow cost recovery of power pre-
2 purchased for augmentation that is required to meet load. If augmentation costs were
3 incurred above and beyond that needed to meet or reduce load, those costs were always
4 excluded from the LB CRAC.

5 *Q. The Joint Customers recommend that BPA make a final determination regarding the size*
6 *of the LB CRAC that incorporates the results of the current settlement negotiations*
7 *regarding litigation challenging the investor-owned utilities' Residential Exchange*
8 *Program settlement agreements. See Bliven, et al., SN-03-E-JC-01, at 15. (The Joint*
9 *Customers refer to three cases that they describe. In Cases 1 and 2 the litigation*
10 *premium is removed, while Case 3 assumes that the litigation premium stays in place.)*
11 *Do you agree?*

12 *A.* BPA will set each LB CRAC following the requirements established in the GRSPs. As
13 such, each LB CRAC will be set on or about 90 days prior to the date that it will go into
14 effect based on the best information available at the time.

15 *Q. The Coalition Customers argue that in 2001, BPA's failure to anticipate load reductions*
16 *contributed to its huge rate increase. See Faddis, et al., SN-03-E-CC-01, at 18. Do you*
17 *agree?*

18 *A.* No. First of all, customers requested to purchase significantly more power from BPA
19 than was anticipated. Second, such increased load service requests were made in the
20 midst of the 2001 energy crisis, which recorded all time high prices for power. Had BPA
21 not taken any actions to minimize potential rate impacts at that time, BPA was
22 anticipating rate increases in the range of 250 percent from the LB CRAC. However, in
23 order to avoid such dramatic rate increases, BPA engaged in a process to pay customers
24 to voluntarily reduce their load placement on BPA or otherwise enter into contractual
25 arrangements to reduce load on BPA. These efforts were extremely successful at
26 reducing the amount of load BPA had to serve. BPA's resulting rate increase in

1 June 2001, which was effective October 1, 2001, was approximately 46 percent instead of
2 250 percent. Included in these load reductions were expected amounts of DSI load
3 reduction associated with expectations about DSI economic curtailment due to rate levels.
4 While BPA did not assume general load reductions based on elasticity assumptions
5 because it was unclear to what degree utilities would incorporate the rate increase into
6 their retail rates, BPA did adjust a customer's load forecast if BPA had a contractual
7 commitment with a utility stating that that utility would reflect BPA's rate increase in its
8 retail rates.

9 *Q. The Coalition Customers appear to argue that since utility load growth did not*
10 *materialize, BPA has been forced to sell about 600 average megawatts of energy that it*
11 *over-purchased. See Faddis, et al., SN-03-E-CC-01, at 18. Do you agree?*

12 *A. No. While BPA has remarketed power that is the byproduct of over-augmentation, BPA*
13 *does not agree that this over-augmentation is the result of utility load growth not*
14 *materializing due to the level of the LB CRAC, but rather for reasons related to the*
15 *recession gripping the regional and national economy. The actual amount of over-*
16 *augmented power is not known until sometime after the close of a given 6-month period.*
17 *BPA's estimate of over-augmented power was contained in a table distributed to parties*
18 *at an SN CRAC workshop on February 13, 2003, titled Summary Data on Contracted*
19 *Augmentation Expenses and Forecasted Augmentation Need. The table reflects the*
20 *following forecast of average amounts of over-augmented power: 580 aMW in FY 2003;*
21 *355 aMW in FY 2004; 572 aMW in FY 2005; and 476 aMW in FY 2006.*

22 **Section 3. Adequacy of Current Revenue Forecast**

23 *Q. CRITFC argues that BPA's current revenue repayment forecast does not satisfy U.S.*
24 *Department of Energy (DOE) Order RA 6120.2, citing a data response provided by BPA.*
25 *Sheets, et al., SN-03-E-CR/YA-01, at 47. Do you agree with this claim?*

26 *A. No. BPA's response to data request CR&YA-BPA:078 clarified that BPA's forecast of*

SN-03-E-BPA-15

Page 7

Witnesses: Spencer G. Wedlund, Jon A. Hirsch, Janet Ross Klippstein, Arnold L. Wagner,
Robert J. Procter

1 revenues at current rates did not recover all of BPA's expenses. *See* Sheets, *et al.*,
2 SN-03-E-CR/YA-01, Attachment SN-03-E-CR-01PPPP, Data Response
3 CR&YA-BPA:078A. This is to be expected when BPA proposes a rate adjustment. BPA
4 prepares revenue forecasts at both current and proposed rates to determine whether a rate
5 adjustment is needed.

6 *Q Does the current revenue forecast satisfy DOE Order RA 6120.2?*

7 A. Yes. DOE Order RA 6120.2 requires that BPA prepare a power repayment study using a
8 forecast of revenues at current (or established) rates (*i.e.*, without the application of the
9 SN CRAC), and a revised power repayment study using a forecast of revenues at
10 proposed (or assumed) rates, to demonstrate that potential revenue levels will satisfy the
11 cost recovery criteria over the remainder of the power system's repayment period. *See*
12 Sheets, *et al.*, SN-03-E-CR/YA-01, Attachment SN-03-E-CR-01PPPP, Data Response
13 CR&YA-BPA:078A, section 7f. Both of these forecasts have been prepared and
14 summarized in the SN-03 Study, SN-03-E-BPA-01, Tables 5-1 and 5-2. The forecast of
15 revenues at current rates, when used in combination with BPA's expenses, shows that
16 BPA's revenues do not recover its expenses; while the forecast of revenues at proposed
17 rates, used in combination with the same expenses, demonstrates that the revenues using
18 proposed rates cover expenses. In combination, these two forecasts satisfy the
19 requirements of DOE Order RA 6120.2.

20 *Q Does this conclude your testimony?*

21 A. Yes.